

Testimony of

Deputy Under Secretary of Defense
(Industrial Policy)

Before the United States House Subcommittee on National Security,
Emerging Threats, and International Relations
of the
Committee on Government Reform

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SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS, AND INTERNATIONAL
RELATIONS

**Statement of
Deputy Under Secretary of Defense (Industrial Policy)
on
Joint Strike Fighter (JSF) International Industrial Participation
before the
Subcommittee on National Security, Emerging Threats, and International Relations
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Committee on Government Reform
House of Representatives
July 21, 2003, 1300 hours**

Good afternoon Mr. Chairman and members of the committee. I appreciate the opportunity to share with you my assessment of international industrial participation on the Joint Strike Fighter (JSF) program, as well as my thoughts on the importance of this program for the global defense industrial base and coalition warfare.

As you highlighted in your letter inviting us to testify, Mr. Chairman, the Joint Strike Fighter (JSF) program was conceived as an international cooperative development and acquisition program in order to attract financial investment to share the cost burden, to enhance interoperability with allies, to leverage technological innovation from partner countries, and to promote the eventual foreign sales of the aircraft. With affordability as a lynchpin of the program, it was critical at the outset to take extraordinary and unprecedented measures to control costs.

This program's international contracting strategy is a fundamental departure from offsets. Its "best value" sourcing strategy -- where foreign companies have to compete their way on to the program on an equal basis with U.S. companies -- has in fact elicited complaints by foreign governments and defense firms. That said, we believe that with 18% of the contracts awarded to date going to foreign firms (\$2.2 billion), this program is providing appropriate access -- and great potential -- to partner countries.

Program Assessment

The JSF international acquisition strategy is unprecedented in the program investment it was able to attract from partner countries (and companies in the case of Denmark!) and in the opportunity it presents for partner companies to participate in the global industrial base supporting a state-of-the-art, cost-effective, and well-funded platform. This program provides the opportunity for participating companies to produce components of JSF not only for their own or consortia operational requirements (the F-16 model) but also, near term, for the much larger United States and United Kingdom JSF inventories -- with the promise of content on all worldwide JSF inventories produced well into the first half of this century.

While a bold departure from previous models of international participation on U.S. military platforms, the JSF international strategy extends the foundation built over decades with friends and allies on co-production and consortia programs, as well as through key international industrial agreements and statutes. By statute, Canada is considered part of the national defense industrial base – an important cornerstone for the security of our shared North American continent. Declaration of Principles agreements with allies and friends such as the United Kingdom and Australia, and then the Netherlands, Spain, Sweden, and Norway in this Administration, built on Defense Equipment Cooperation Agreements signed in the 1990s. These Declaration of Principles agreements address key areas of interest such as the harmonization of military requirements, security of supply, export procedures, security, foreign ownership and corporate governance, research and development, and promoting defense trade. In recognition of the importance of security of supply, DoD has signed a bilateral security of supply arrangement with the United Kingdom, and is negotiating similar arrangements with Sweden, the Netherlands, Norway, Italy, and Spain. Individually and collectively, these arrangements encourage allies to acquire defense goods from US suppliers, promote interoperability, and provide increased assurance that the Department's non-US suppliers will be in a position to provide timely deliveries to DoD during peacetime, crisis, emergency, or armed conflict.

Our assessment of the impact of the JSF program on the partner countries and companies has made clear some of the challenges associated with its revolutionary international acquisition strategy. Partner countries that had early, active, and far-reaching government involvement in structuring an in-country industrial strategy for the JSF program have had the most success in gaining program content to date: Canada and the U.K.

The extent to which partner countries were committed to purchasing JSF for their own forces also made for better results. Countries committed to purchasing the aircraft for themselves have greater incentive in helping to market the aircraft elsewhere for reasons of investment recoupment via price reduction, return levies from non-partner sales, and larger incremental revenues for their participating companies. In addition, in the cases where a mix of JSF and Eurofighter aircraft are envisioned, countries with clear plans such as Italy were better able to “referee” industrial interests attached to the two platforms. Finally, in these countries, the government, the military services, and the industry were able to most effectively lobby their paramilitary bodies on behalf of the program. That said the program is still bedeviled by the strategies of industrial interests that would be better served by

purchases of the Eurofighter – which has made for something less than a level playing field for the JSF program.

In discussions with partner countries and their companies, they complained that the single most important factor to de-level the playing field has been the lateness and ineffectiveness of the Global Project Authorization (GPA). This had the greatest impact on those suppliers that did not have well-established relationships pre-existing with U.S. primes and first-tier suppliers. Even Canada's statutory advantage of exemption from some U.S. International Traffic in Arms Regulations (ITAR) did not eliminate their need for Technical Assistance Agreements (TAAs). Export control issues have plagued virtually all of the JSF international partners.

However, some of the strategies used by partner countries and companies in *their* approaches to JSF indicate that those strategies are no less revolutionary. The Netherlands identified the JSF program as one of two pillars on which it expects to build a world-class aerospace industry. Danish industry was so impressed with the opportunities the program affords that it invested in the System Development and Demonstration (SDD) phase alongside the Danish government. Canada provides prized quality and business certifications to JSF contractors, and Canadian company bids on program opportunities will surpass 100 in its first year or so as a

SDD partner. Major Italian companies are sending about 100 of their engineers to be part of six Lockheed Integrated Product Teams (IPTs) in Dallas-Fort Worth and El Segundo. The Danish firm Systematic has stationed several of its engineers at Lockheed to demonstrate their expertise.

JSF Canada surveyed the US JSF industrial base, visiting the primes as well as second- and third-tier suppliers. The UK Department of Trade and Industry surveyed its own potential supplier base early in the program, as did Australia's JSF Industry Advisory Council. In addition, Australia established Integrated Capability Teams to parallel Lockheed's IPTs for maximum program connectivity. To oversee industrial participation in the program, the United Kingdom, Canada, and the Netherlands established JSF organizations in their countries. Many partner countries have also sponsored or co-sponsored "JSF Industry Days" for their suppliers.

Lockheed Martin and Pratt & Whitney have also been worthy quarterbacks to their global partners. Industrial surveys were conducted in all partner countries to assess competitive opportunities and better understand industrial capabilities. In tribute to the English motto that it is the exception that makes the rule, the best value acquisition strategy yielded to commitment to international industrial participation,

as in the cases of the early award to Alenia of its wing contract, Lockheed's Letters of Intent and Memorandum of Understanding with the Italian government and industries, and the strategic sourcing approach.

Conclusion

The massive return potential to partner countries and coalition warfighters from the program is already apparent. Surely, a time traveler to 2030 would report back to present government and corporate decision makers their successors' disbelief that the international opportunities from the JSF program were not clearly seen early in the program's history. We also believe that some of the JSF program's most important disciples will be other US program managers who refine their international acquisition strategies based on early lessons learned.

Evidence already abounds that the program is reshaping the global defense industrial base. UK industry is undoubtedly already reaping benefits from the substantive role they had in some of the most challenging aspects of the JSF development. And the short takeoff and vertical landing (STOVL) variant will give our own Marines a truly expeditionary multi-mission/multi-role aircraft. Countries that chose to fund and focus discretionary R&D investments on the

program and have done well speak volumes about the importance of R&D investment for innovation and competitiveness. Transnational links are already being forged among the partner countries and their companies which will yield untold international defense industrial alliances, market access, and technology spin-offs. Finally, the program will dramatically increase the scale of many small and mid-size companies in the global defense industrial base. A Canadian specialty semiconductor chip manufacturer grew from 12 to 15 employees because of its position on the JSF program. Another 40-employee company, which develops decision support software, is forecast to source average annual JSF revenues in System Development and Demonstration/Low Rate Initial Production (SDD/LRIP) in line with its average total corporate revenues in the 2001-2002 timeframe. In Full Rate Production (FRP), this company's revenues from JSF could average over ten times 2002 revenue. At these growth rates, some of the smallest JSF suppliers could find themselves shoulder-to-shoulder with the blue chip giants of the industry as a result of being part of this program!

Above all, however, it is imperative to remember the promise and importance of the JSF program to the American, British, and other partner country war fighters. If we stay the course with minor rudder adjustments, JSF will provide great benefits to the US and global defense industrial base and war fighters alike. Not to

do so would undermine US credibility in the global market place and among our important friends and allies.